

**Macro International, Inc.
USAID/SA Performance Monitoring & Evaluation Project**

***Evaluation of the South African Black Construction
Assistance Program (SABCAP)***

FINAL REPORT

Prepared for: USAID/South Africa

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Acronyms

ABA	African Builders Association
BCI	Black Construction Industry
BIFSA	Building Industries Federation of South Africa
BITS	Building Industry Training Scheme
CEITS	Civil Engineering Industry Training Scheme
EDSA	Entrepreneurial Development Southern Africa
NAFBI	National African Federation of the Building Industry
NBCITT	National Black Construction Industry Task Team
NECSP	National Emerging Contractor Support Program
NHBRC	National Home Builders Registration Council
RFI	Retail Financial Intermediary
SABCAP	South African Black Contractors Assistance Program
SABTACO	South African Black Technicians and Allied Consultants Organization
SAFCEC	South African Federation of Civil Engineering Contractors
SUDS	Shelter and Urban Development Support Project

Evaluation of the South African Black Construction Assistance Program (SABCAP)

Executive Summary

SABCAP was designed when South Africa lacked a legitimate Government and was in a state of rapid flux. It was designed as a technical assistance and support program for small black contractors.

SABCAP was formed in August, 1993. The first grant was made the next month. Its head office was in Cape Town and a Board of Directors of six members was elected from the existing rival black contractors' organizations. It concentrated its efforts thereafter on hiring the construction advisers who would provide one-on-one assistance to contractors; and opened offices in Durban and Johannesburg.

Implementation of this phase was slow, partly due to the fact that SABCAP had to establish operating procedures and orient its staff, but also because great difficulty had been experienced in finding suitable construction advisers.

In October 1994, the Minister of Housing and all stakeholders in the housing development process signed the Botshabelo accord. Among the outcomes of this was a demand from the Government that black builders form a unified body with which the Government could engage on policy matters, and which, in turn, would advise the Government on steps which should be taken to empower that sector of the industry.

Following this, the National Black Construction Industry Task Team (NBCITT) was formed with the objective of investigating means of developing the capacity and role of the black construction industry. Subsequently, through several metamorphoses, this became known as simply the BCI (Black Construction Industry). Although it did not then have, and still does not have legal persona, this body effectively drove the policy process. However, it lacked financial or administrative capacity and, therefore, it appointed SABCAP as its secretariat.

USAID/SA and SABCAP realised that this was an important opportunity to make a difference, and SABCAP played a most important role at that time in terms of facilitating studies and convening and financing meetings and workshops. This was a major shift of emphasis for SABCAP, but they received approval from USAID to engage in this type of work.

SABCAP's construction advisory role failed to flourish. The Johannesburg office was closed in May, 1995, and the Durban office three months later. In May, 1996, the grant was amended to recognise that construction advice was not viable and to place more emphasis on policy development and support work. Among the outcomes of this phase was a data base of contractors which remains an important and under-utilized tool.

Meanwhile, with SABCAP's support, the BCI process gathered momentum. A national Emerging Contractor Support Program¹ was developed and was to be implemented in five phases. The first four phases were successfully implemented with SABCAP support, but, by the time the final phase was due to commence - publicising of the concept throughout South Africa - a rift had occurred between SABCAP and the BCI leadership, and SABCAP's role as Secretariat was terminated, though funding for it continued through the appointment of a consultant.

By this stage, the momentum gained by the BCI was such that SABCAP's exclusion was not fatal, though it slowed down the process. Also, the Department of Public Works was very heavily engaged in the issues and in a number of ways was already implementing much of what the BCI had fought for. Today, many of the objectives sought by the original founders of SABCAP have been achieved, and the BCI process - in which SABCAP played such an important part - has been recognized as a major contributory force in this transformation.

With the cessation of support for the BCI, SABCAP turned its attention to the question of finance and embarked upon a pilot program to investigate ways and means of facilitating finance for emerging contractors operating within the formal sector. Contractors are required to furnish performance guarantees and have to obtain bridging finance. In both these activities, Khula - a new financial wholesaler - offered guarantees to banks which participated in this business.

A pilot project was started in the Western Cape to test the system and determine how to make the contractors bankable. Ten contractors were selected, and technical assistance was provided to them to help them present their case to their banks. From this project it was found that with proper presentation and support from "mentors" who were professionals, contractors who have been awarded contracts within the range of R1,500,000 to R10,000,000 could obtain financing. Six out of the ten did so with SABCAP facilitation, but without the use of a Khula guarantee; two required the guarantee; and two were rejected.

Based on this experience, Khula has embarked upon a program of training and appointing mentors to assist bank applicants in this process. This is potentially a very important stage in the development of a support framework for emerging contractors, and, although the operational method differs, the concept bears an interesting similarity to the original purpose of the grant.

¹ Originally, USAID defined its assistance target as "small" building contractors, as it had done in other countries in the region. This usage was dropped early in the program in favor of the terms "emerging" or "black". These are now used virtually interchangeably, although the term emerging implies something about size.

Problems remain, however, especially in the field of construction guarantees, for which banks often demand a very high level of securitization. For this reason, SABCAP has devoted the last few months to developing concepts with regard to the formation of a specialised agency which would offer performance guarantees. We were asked to comment on the appropriateness of further work by SABCAP on this matter.

We concluded that a concrete proposal is already emerging and that little would be gained from further work in this field by SABCAP itself.

The options we considered were:

1. SABCAP devotes six to nine months to refining the concept of establishing a financial intermediary to offer performance guarantees (with support from Khula, which has already emerged from the Western Cape Pilot Project). This process would involve workshopping the concept with different stakeholders and looking at the logistics of establishing such an enterprise or enterprises.
2. SABCAP undertakes studies on the subject of retail finance intermediaries, with a view to establishing the requirements of the different sectors of the industry and the appropriate mechanisms for each.
3. The remaining funds be used to further existing objectives of SABCAP by financing the existing BCI development process.
4. The remaining funds be paid to an existing institution, such as the National Home Builders Registration Council, for the same purpose.

We consider option 3 of the above the most suitable in that it will continue and conclude the main objective of Amendment 3 to the grant. However, if funds are available, consideration should also be given to developing the Performance Guarantee Fund concept further.

Performance Evaluation of the South African Black Construction Assistance Program (SABCAP)

1. Introduction

When SABCAP was designed South Africa was in the midst of a creative revolution. While political alliances and programs were being thrashed out in the search for a formula for majority rule, previous societal and technical relationships were being questioned and being subjected to a fierce questioning. Nothing was taken for granted. Ideas from outside the country - perceived as *the real world* - were being studied with voracity. Arrangements within the country were being scrutinised fiercely.

Not very long after Nelson Mandela's release from prison, he met President George Bush. In that meeting he stated that one of the most serious needs facing the people of South Africa was housing.

The Regional Housing and Urban Development Office was subsequently requested by USAID South Africa to design a project that would respond to Mr Mandela's request.

This was the Shelter and Urban Development Support (SUDS) Project, which was approved in May 1992. The purpose of the SUDS project was to promote the provision of services, infrastructure and housing to low income disadvantaged South Africans. The focus was on training, technical assistance and leveraging finance with a supportive policy environment. Interlinked assistance was provided in the areas of community capacity building, support for black building contractors, short and long term finance and housing policy development.

The flagship project of SUDS was the Community and Urban Services Support Project, which was intended to assist communities to obtain access to land and finance and develop housing. Construction of this housing would provide excellent work opportunities for emerging black contractors.

2. Background

Construction is a labor intensive industry. Moreover, small contractors represent an important means of employment generation, there are few barriers to entry to the industry. However, as a sector it has earned a reputation for bad financial management and low standards of reliability and service. It was these factors that encouraged the RHUDO E & SA to launch RECAP (Regional Contractor Assistance Program). Swaziland was the first country program to start, and was quickly considered a success. This was followed by Zimbabwe, and by the time SABCAP was being considered, consultations had taken place in Botswana.

In South Africa in 1992 it was clear that small black contractors had been deeply disadvantaged by apartheid. There were many problems: poor education; the structure of the industry which had erected many barriers to entry; and prejudices within the financial and building materials supply industries. These effectively precluded growth and learning and not only gave the black contractors an extremely bad reputation, but also prevented them from escaping from apartheid's clutches.

A few initiatives had begun to emerge. A number of different agencies had been formed with the specific aim of assisting small contractors, mechanisms for providing bridging finance were being developed and many small contractor associations had been formed. The two major ones were the African Builders Association (ABA), which had been formed in 1988, and the National African Federation of the Building Industry (NAFBI). Between them they represented 5,000 members.

As a preliminary step, USAID undertook a survey of the needs of small contractors in early 1992. The report made three main recommendations for future support:

- ! increasing the availability and scope of training courses and the development of training materials
- ! establishment of a bridging finance fund
- ! strengthening and unifying the small contractor associations, and creating an environment in which small contractors flourish.²

3. USAID/SA Assistance Approach

3.1 Introduction

In the event it was decided to make the SABCAP program highly focused, selecting part of the first of these needs as the goal of the program, namely training.

The first challenge was to find a home for such an initiative. In light of the polarisation of the existing contractor organisations, it was decided to form a new one, in which the main players would be partners. A very significant moment took place when the rivalries of the past were buried in the interest of unity and facilitation of an important initiative: SABCAP.

Thus the stage was set: a grant agreement was drafted, and a consultant appointed by the RHUDO in Nairobi to assist in the establishment and management of the early stages of the program.

² Richard Martin: Small building contractors in South Africa; Office of Housing and Urban Programs, Working Paper, US Agency for International Development, Washington DC, February 1992.

3.2 Sequence of Events

Because this was a project which took place in a highly volatile political environment and the content and objectives evolved rapidly, we summarise the situation briefly before going into detail below.

June 1992	First visit by USAID consultant, Graham Jenkinson
August 1993	SABCAP Trust registered
September 1993	Grant made
October 1993	First meeting of the Board
	Executive Director, Conny Petersen, appointed
March 1994	First SABCAP offices opened in the Western Cape
September 1994	First grant amendment changing requirements for Board Members, strengthening the role of the Executive Director, and clarifying methods for appointing consultants
October 1994	Durban office opened
October 1994	Minister of Housing calls for unified black construction industry and Botshabelo Accord signed
October 1994	National Black Construction Industry Task Team constituted under the aegis of the Department of Housing, to make contributions to the Housing White Paper, and develop proposal for strengthening the black construction industry
November 1994	Johannesburg office opened
February 1995 industry	First meeting of all stakeholders in black construction
February 1995	USAID Project Officer supports concept proposed by SABCAP for moving into policy support instead of technical assistance to contractors
May 1995	Johannesburg office manager resigns, and office closed
May 1995	Black Construction Industry (BCI) constituted, SABCAP appointed as secretariat. National Emerging Contractor Support Program (NECSP) initiated.
July 1995	First two phases of NECSP completed.
August 1995	Durban office closed
April 1996	Phase 3 of NECSP completed
May 1996	Third grant amendment formalises SABCAP's new role as policy development and support agency
August 1996	Fourth phase of NECSP completed
September 1996	SABCAP authorises Executive Director to focus on the financial needs of emerging contractors and develop a working relationship with Khula
October 1996	Brainstorming session between SABCAP and the

	Building Industry Federation of South Africa (BIFSA) the South African Federation of Civil Engineering Contractors (SAFCEC) leads to proposal to form of Emerging Contractors Council (ECC)
November 1996	Mid-term review conducted by KMMT BREY
July 1997	Western Cape Pilot Project (WCPP) designed and proposal circulated to interested stakeholders. It was designed to facilitate access to financial instruments and develop supporting mentorship systems for emerging contractors; professional input into financial proposals.
February 1998	WCPP final evaluation meeting held, and recommends cementing the Khula/emerging contractor finance relationship possibly along the lines of a new RFI. Khula plans to establish mentorship program.
May 1998	Construction Industry Confederation formed, with BCI one of three major bodies to be represented
September 1998	Black Construction Council formed

3.3 The Grant Agreement and Amendments

The total value of the grant as stated in the Agreement (dated Sept 7, 1993, but effective from December 1, 1992, so as to cover setting-up expenses) was \$1,300,000.

The intention of the program was described in the Agreement thus:

SABCAP will not “train”; it will assist contractors on the job; it will provide advisers not “trainers” and, should specific needs arise, a limited number of focused seminars. . . . SABCAP will not support a policy of providing concessions to support small building contractors. Contractors must develop and succeed in the real world and with real competition.

SABCAP was to set up three offices, in Cape Town, Durban and Johannesburg, each with two construction advisers and a secretary, was to be managed by an Executive Director (who “shares the experiences and concerns of the target group”) and would be lead by a Board of six members. Guidelines for the selection of clients stated that the prime target group was “small firms who have a bakkie (pick-up truck), access to a telephone, a small office, an established workload, secretary/bookkeeper, etc”

Cost recovery was a long-term aim of SABCAP. Initially a fee would be charged to the clients which was of a nominal nature as a mark of the client’s commitment. As the value of the program to the contractors increased in terms of concrete results, the fees would be increased so that over the medium term cost recovery would be attained.

The Program Description in section V of the Attachment 2 of the Grant Agreement, from which the above were taken is descriptive, without stating

specific achievements or results to be achieved. The only specific reference to an output is that the construction advisers would each be responsible for sixteen clients, thus making a total of 96 client contractors at any one time. No reference is made to the length of time over which each contractor is expected to receive SABCAP assistance. Criteria for monitoring are, however, stated, under which a data base is established of all participating contractors to determine whether their turnover, employment levels and projects are increasing or declining. Such data was supposed to be used to determine whether the SABCAP assistance was producing results, but no standard for success was specified.

Amendment No. 1 to the Grant was made in September 1994, one year after the grant had been made. This contained language to protect the Executive Director, and control the activities of the Board which, by then, had begun to exercise a level of independence which threatened the execution of the program. This is discussed in more detail below.

Among the provisions were

- ! The Executive Director could not be dismissed without the prior written approval of the USAID Project Officer;
- ! The Board was expanded from six to ten members;
- ! SABCAP, as the “foremost black contractors’ organization with the legitimacy . . . to lead the way to greater and sustained economic opportunities . . . will also address the policy, institutional, regulatory and legislative environments affecting the black contractor in South Africa.”
- ! Every member of the Board of Directors must positively contribute to the aims of SABCAP . . . and shall not represent any specific constituency.
- ! The terms and conditions under which the Executive Director could engage consultants were also clarified.

The purpose of Amendment No 2 of September 1995 was to obligate additional funds, and it contained no program amendments.

Amendment No 3, of May 1996, however changed SABCAP primary purpose from assisting individual entrepreneurs to acting as “an impartial facilitator to move forward the enabling process among the government, the established construction industry, established resource providers, development agencies and the emerging contractors themselves.” The specific objective was to “Facilitate the establishment of a National Contractor Support Program (NECSP): and act as “Secretariat” to BCI and its consultant team. (V.1. a of Attachment 2).

It would also “facilitate the provision of an appropriate policy, legal and program environment to support the empowerment of emerging contractors in South Africa”.

This was to include the establishment of a National Emerging Contractor Support Program, a concept that had been endorsed by the Black Construction Industry task team (an informal grouping which in turn had been facilitated and supported by SABCAP). Under this arrangement SABCAP would work with the Departments of Public Works, and Trade and Industry to facilitate training and mentoring of emerging contractors, registration of emerging contractors, revision of standard contract documentation and revision of the regulatory framework. The results were specified in terms of a five stage NECSP process, which may be summarised as follows:

1. Achieve broad agreement within the construction industry on the need for a BCI presence. (This had already been done by the time the grant amendment was made)
2. Prepare draft proposals (This had already been done by the time the grant amendment was made)
3. Negotiate proposals with all major stakeholders (This had already been done by the time the grant amendment was made)
4. Prepare detailed NECSP program outline, including organizational and institutional structures.
5. Secure widespread approval and NECSP launch.

Another result was the facilitation of the establishment of a new and innovative “Enabling Regulatory and Legal Framework” which would allow emerging contractors to participate fully in the industry. There is no definition of what full participation is.

SABCAP’s role as a provider of technical advice was implicitly abandoned, and the positions of all the construction advisers abolished.

4. Findings

Evaluating a project such as this has not been easy. The first grant agreement had no specific results to be evaluated, and the second had comparatively short term objectives which had been substantially achieved within three months of signature (only phase 5 remained undone, due to reasons explained below). The only other result required in Amendment 3 was the loosely formulated “new regulatory and legal framework”.

The lack of emphasis on specified results suggests that to both USAID and the construction industry it was considered enough for SABCAP to exist, and inappropriate to attempt to tie it down precisely by defining specific results.

However, objectives were stated in various forms, and in this section we shall endeavor to extract the objectives as stated in the Grant and its amendments, and determine the extent to which they were met. Our findings in this respect are as follows:

4.1 Original Grant Agreement

The content of this was described under paragraph 3.3 above. As will have been noted though results were not clearly defined. However, this is, in a sense unimportant, because the whole thrust of the program was considered inappropriate and impractical. Inappropriate because there were greater structural problems facing the industry had had to be addressed before the industry and its members could flourish. Impractical because it was very difficult to find construction advisers, which were the means by which the objective of empowering contractors were supposed to be met.

The situation is therefore that the grantee failed to meet the objectives, but that the objectives themselves were changed before they could be reached.

4.2 Grant Amendment 3

Under this amendment, which authorised a major change of direction, the results foreseen were stated more specifically. At the risk of repetition, we shall take these objectives one by one, and discuss the degree to which they were met.

The main thrust of the Amendment was the commitment of SABCAP to assist the BCI in meeting its program, the NECSP. To be more specific:

SABCAP's role in this matter was described in the amendment as follows:

“SABCAP, together with the Departments of Public Works and Trade and Industry, will facilitate the following interventions for emerging contractors:

A major program for emerging contractor development (1)

Training, mentoring and the development of a career path for emerging contractors, including modification of the regulatory framework for accreditation and certification of the full range of those individuals engaged in the construction trades . . . (2)

Registration of emerging contractors and consultants (3)

Revision of standard contract documentation (4)

Revision of the regulatory framework with the emphasis on the development of contract compliance legislation. (5)”

Evaluation of these broad objectives is complicated by the fact that they were not within the power of SABCAP to achieve, and there was, in any case, no

defined or definable result. In any case, SABCAP's effectiveness was limited due to divisions in the industry and competition between the stakeholders. (The nature of these is discussed in the next section).

Noting these difficulties we can comment that most of the objectives listed above were achieved in part or in whole. The major program for contractor development (item 1 above) could be taken to mean the NECSP, and is therefore a duplication of the objective stated in detail in that connection.

The language of Item 2 is vague, but from what we were told, has hardly been touched upon.

Part of Item 3, the registration of contractors was undertaken by SABCAP, and a data base is available. Registration of consultants was not really SABCAP's role, as it had already been undertaken by the South African Black Technical and Allied Consultants Organization (SABTACO), another USAID grantee.

Item 4, the revision of standard contract documentation is an activity which the Department of Public Works has been working on. SABCAP has not been involved in this activity.

The Department of Public Works has been very involved in part of Item 5 the "Revision of the regulatory framework", but it is not known what was meant by the second part of the objective "with the emphasis on the development of contract compliance legislation".

The absence of detailed implementation of these objectives is indicative more of the rapidly changing dynamics of the black construction industry and the complicated dynamics of the relationships between the main players. The next section of this report therefore explores the complex relationships which affected the implementation.

Grant amendment 3 changed the basis on which SABCAP was operating in another fundamental way. Whereas the original intent had been that SABCAP was to offer a service that offered the opportunity for economic gain to individual private enterprise, and should therefore be charged for, under the amendment this objective was dropped entirely, in that SABCAP stopped offering a service. Therefore the question of cost recovery no longer applied.

4.3 Feasibility of Grant Objectives

A question that must be asked at this point is how feasible the objectives of the Grant and the Grant amendments were.

An important distinction must be made between the original grant and the

amendments, especially amendment 3.

It was noted in section 3, that South Africa was one of the countries to benefit from AID assistance to small contractors in the region. A model had been established in Swaziland which was working well, and the central ingredients of that model were used as the starting point for the SABCAP program. There are, of course, fundamental differences between South Africa and Swaziland, including size, history and economy, and it is easy in hindsight to state that the Swazi model was not suitable for South Africa.

However, it cannot be said that the the original grant objectives were not feasible, but it is undeniable that there were formidable problems in respect of identifying suitable construction advisers and of the management of the process. History did not let these issues play themselves out, so further analysis is not possible.

Grant amendment 3, however, which established the change of direction of the program was not only feasible, but, as noted above, the objectives were substantially achieved.

5. Non-project Factors

As a result, the project was a multi-dimensional one. It has not been easy to evaluate the wide variety of outcomes, and it is therefore considered essential that attention should be given to the complex environment within which SABCAP was operating.

In order to obtain clarity regarding its many facets, we have tackled each one separately. Inevitably this causes some overlap, which we hope the reader will forgive. The topics thus covered are: the Political Influences, the contribution of the Executive Director, and the policy environment. Finally we comment on the latest phase of SABCAP's work, the Western Cape Pilot Project, and list the unexpected outcomes of the grant.

5.1 The Political Influences

No one can mention SABCAP without mentioning the difficult political situation in which it had to operate. We are using the term political here in both a loose and a technical sense. The Board, as originally constituted, consisted of members from the African Builders Association (ABA) and three from the National African Federation of Builders (NAFBI). These organizations were affiliated to FABCOS and NAFCOC respectively, which in turn were supporters of the PAC and ANC respectively. These competing affiliations led to suspicions and hostility, and made operations difficult. The situation was exacerbated by the fact that the majority were based in the Gauteng area, and viewed activities in the Western Cape with suspicion.

When the Board was expanded to ten members, and the members appointed who did not have specific affiliations, tensions were reduced but not eliminated. At about that time a National Black Construction Industry Task Team was created to identify all measures that were required to support and strengthen black (or emerging, as they came to be called) contractors. SABCAP was in the fortunate position of having funds to facilitate the process, and was appointed Secretariat. New tensions emerged between the Chairman in his capacity as SABCAP and BCI Chairman, and the Board.

There was another level at which political tensions adversely affected SABCAP and its work. This was a dispute concerning the extent to which, with a new legitimate Government, the emerging contractors should align their interests with the Government, and specifically to rely on the Department of Public Works to champion their cause. As part of the BCI development process, these issues had been hotly debated, with consultants and task teams differing on this point. Another point of debate was whether the proposed Black Construction Industry Council should be a statutory or private sector body.

The last way in which political tensions expressed themselves was in the matter of “conflict of interest”. All the initial Board members were practising contractors. SABCAP had the power to benefit their firms and/or their firms in a number of ways. Accusations of conflict of interest, and the accompanying miasma of distrust could be and indeed were very destructive, so consultants were engaged to prepare guidelines for the management of this matter before it got out of control.

5.2 The Contribution of the Executive Director

The Executive Director was in a difficult position. The majority of the problems experienced by him were no reflection on his personal abilities, but are a not uncommon occurrence with grants in which USAID is forced to intervene to protect the grant against what it perceives as undesirable changes of direction.

This is illustrated by the SABCAP case in several ways. On a number of fronts SABCAP’s Executive Director’s position became increasingly difficult. An early problem was that his loyalties were perceived to be to USAID rather than SABCAP, and the various Grant Amendments are, in a sense, proof that USAID was willing to go to some lengths to protect “their man” from being dismissed or the program being changed without their consent.

The location of the office in the Western Cape also, as stated above, created the opportunity for suspicions to arise as the majority of the leaders of the industry were in Gauteng.

His position was further weakened by the fact that he was invited to go overseas on many occasions, and there was suspicion that these trips were engineered for his own personal benefit.

Among the trips were a visit to Atlanta to attend a conference which was a precursor to the Binational Commission established between the US and South Africa; a study tour of Jamaican housing, visits to Washington, DC and Europe. This, again, led to resentment that Board members and others were not so involved.

However, it is a fact that the suspicion that pertained to SABCAP ultimately resulted in it losing some of the influence it might otherwise have had. This is most tellingly illustrated by the fact that the SABCAP-supported NECSP went extremely well until the final stage, when it was decided by the BCI leadership that they did not want to entrust any further work on the subject to SABCAP, and therefore the final stage - publicity for the process and its achievements - was not implemented by SABCAP as proposed in Grant Amendment 3. The Department of Public Works was also involved in this decision, and consequently withdrew its support for SABCAP, as it considered that it (SABCAP) was not willing to work in a spirit of partnership. At the root of this conflict was the issue of whether SABCAP should be an independent body, or one that was to place itself in a partnership arrangement with Government or other bodies. This is discussed in detail in the following section.

Everyone whom we asked about whether it would have been better for the SABCAP office to have been located in Johannesburg thought that it would have been. In fact the Executive Director also urged that the offices be moved to Johannesburg, but this proposal was rejected by the Board.

5.3 The Policy Environment

It is important to realise the speed at which the policy environment evolved during the life of SABCAP. When it was first established there was no legitimate government. The vast majority of the formal industry was either indifferent or hostile to black contractors, unless they were confined to tightly controlled sub-contractual arrangements. The organizations purporting to represent the interests of black contractors were in disarray, and had achieved very little.

SABCAP tried to act as a unifying lobby group from the start, but although it acted as an umbrella body in which ABA and NAFBI both had a stake, it was not legitimised as an umbrella body as such. It even appointed a workshop organizer who was to assist in facilitating such unification. However, at that stage its role was perceived in narrower terms.

It was to the credit of both SABCAP's management and USAID that this was quickly corrected, and its potential to play an influential and facilitative role in the BCI process was recognized. An important letter was written by the USAID

project officer in February 1995, which lay the ground for the change in direction that was finally completed by Amendment 3 to the Grant.

It stated in part:

“When SABCAP was founded . . . the objective was to assist black contractors to compete effectively for private and public construction works in South Africa. At that time the apartheid government had not made a commitment to support the empowerment of emerging contractors. . . Today, I believe that the Ministry of Housing is prepared to fund a national program to support the empowerment of emerging contractors throughout South Africa. This suggests that there may be little to gain for SABCAP to continue to monitor a relatively small number of black contractors. . . If the emerging contractors in South Africa are to achieve full empowerment . . . they will need resources for workshops and for consultants to assist (them) to achieve consensus on policy positions for negotiation . . . The redirection of the SABCAP program will require a formal grant amendment, which USAID would be willing to negotiate with SABCAP if the new program will clearly advance the empowerment of emerging contractors.”

The importance of this change in direction cannot be over-emphasised. From being an agency that helped, at best, up to 200 contractors it would facilitate a massive and important process which, in turn, changed the procurement process that would be used by the public sector and gave the previously disadvantaged contractors a new and powerful voice.

The formal changes to the grant agreement were not made until May 1996, but meanwhile there was sufficient flexibility within the existing agreements and Amendment 1 for the work to proceed.

The concept was a simple one: the emerging contractors should unite and state, in a systematic way, what response and support they required in order to claim their rightful place within the system. Although the target was initially the public sector - because that was the sector which had the mechanism to implement changes - the private sector was also expected to follow suit.

The BCI project team proposed a five-part process in implementing the National Emerging Contractor Support Program (NECSP), as stated above.

The BCI process involved the engagement of consultants, the convening of many task teams, seminars and other debating fora. The scale of the cooperation and the quality of the work that emerged were unprecedented, and the resulting body of work that was published is a tribute to the quality of the inputs and the energy that went into the process. In this process, SABCAP was acting as the secretariat, and thus did not take (and indeed did not want to take) responsibility for the work. That was the responsibility of the ad hoc team that

had emerged as the BCI task team, which united competing interests better than at any previous time in South Africa's history.

At the most fundamental level one of the issues which caused deep divisions was the degree to which the BCI should align itself with the Department of Public Works (DPW), which had now publicly espoused the cause of supporting emerging contractors, and eventually produced a radical Appropriate Procurement Policy. The matter came to a head when the task teams recommended setting up an Emerging Contractor Council, which would be the lobby group for their interests. The argument on the one side was that since the DPW was already committed to helping the industry it would be better to respect them by making a firm alliance and setting up a statutory body under that Department. The opposing view was that statutory boards had their hands tied in many ways, politically and administratively, and that the BCI should constitute a private sector pressure group like the one that already existed in connection with the formal building industry: the Building Industry Federation of South Africa (BIFSA). Another issue of great importance was the role that the Council would play in relation to training. A construction industries training fund is already administered by BIFSA, and represents a huge source of income. Shouldn't some of these funds be set aside for the emerging contractors?

In spite of the fact that SABCAP took a low profile, the fact that the Executive Director worked full time on the BCI project meant that he was associated with both the process and the products in many minds. When they disagreed with any part of the process or product, the most obvious target was Conny Petersen. Thus it was that, but a series of unfortunate misunderstandings and disagreements (some of them on the lines outlined in the previous paragraph), SABCAP's involvement with the BCI was terminated by the committee, and SABCAP was relieved of the responsibility of completing the process. If the BCI had the momentum to complete the task on its own this might not have mattered, but in fact without SABCAP it had no executive capacity, and the final part (Part 5) of the process was not implemented by SABCAP itself.

However, it is appropriate to note that, even after the withdrawal of SABCAP, the BCI process continued, albeit at a slower pace. SABCAP provided funds for a consultant to take the process further. The Department of Public Works was very influential in supporting it, and adopted various measures which reflected some of the objectives of SABCAP itself, such as the establishment of the Construction Industry Development Board, and the National Emerging Contractor Development Program.

The secretariat for the BCI was eventually assumed by EDSA, which received a limited grant from the Swedish International Development Agency for the purpose. This is now exhausted, and funds are being sought for the final stage which is to form a unified, strong and informed voice for the Black Construction Industry.

6. Unexpected Outcomes

6.1 The Western Cape Pilot Project

After the ending of SABCAP's involvement in BCI it decided to turn its interests to another matter which had caused difficulty: the availability of bridging finance, and performance bonds.³ The situation had been changed by the foundation of Khula Enterprise Finance Ltd: a publicly financed but private company which had been established by the Department of Trade and Industry to guarantee borrowing by small business. Khula itself was interested in making a bigger impact on the construction industry, but, like most banks, was cautious due to the complexity of the industry, and the bad record of many contractors.

To address these issues in September 1996 it was agreed that SABCAP would work with Khula to address these issues. Arising from this engagement a pilot program was designed under which contractors would be assisted by SABCAP to obtain bank finance, using Khula as and when appropriate. This project was launched in July 1997, and a total of 10 contractors benefited from it. A final evaluation meeting was held in February 1998.

Four very important lessons were learned from this project.

1. Small to medium size (R1.5 - R10) contracts are bankable

Provided the contractor has the requisite skills to present his case to a bank, cession of the contract to the bank is sufficient security in many cases. However, the important thing was that the typical building contractor does not know how to present his case to the bank. Therefore, under the project, mentors were engaged to help the contractor prepare the necessary supporting documents and ensure that the contract was placed upon a proper footing. This concept is strikingly similar to part of the original *modus operandi* of SABCAP, though the mentors were typically professional people (quantity surveyors, in the main) who were willing to work at lower than normal fees in order to help.

2. Khula Guarantees are not essential in all cases

Important though they are, Khula guarantees were not required by the banks in most cases. However, there are important instances in which the guarantee will make the difference between being granted facilities and not. Of the ten contractors in the pilot project, 6 were given facilities without the Khula guarantee, two received facilities because of the guarantee, and two were refused even with the guarantee. An important

³ The Principal Building Agreement prepared by the Joint Building Contracts Committee (i.e the standard form of contract) requires that the contractor furnish a bond equivalent to 10% of the value of the work which will be forfeited if the contractor defaults. This is normally issued by a specialised insurance company, but in cases where the firm is not known or is financially weak, collateral of the full amount can be required. This often excludes emerging contractors from getting the contract

point to note in this connection is that the contractors' case was greatly strengthened by SABCAP's involvement in terms of mentoring and supporting the contractors to present their strongest possible case.

3. Mentoring is sustainable

The Pilot Project demonstrated that mentoring can be extremely effective in terms of both helping the contractors to present a good case to financial institutions, and in the transfer of knowledge. But one of the key questions with regard to mentoring is whether it is sustainable. We satisfied ourselves that in most cases it is. It is in the interests of the financial institution to get a level of comfort from the mentor that the contract is a viable one, and will be properly managed. It is also in the interests of the contractor as the mentoring can make the difference between being awarded a contract and not. (As, for example, award is conditional upon him getting a performance guarantee, which he can only do if the mentor assists him to present the case properly). Secondly, the advice a contractor receives from a mentor can increase his profitability.

The mentors discovered that it is possible to broker the required services for a fee during the implementation period of the project. Like the real estate agent, the mentors could also obtain from the banks an introduction fee so long as they bring with them bankable contractors.

The mentors discovered a market niche where they could at a minimum fee help the contractors solve their financing problems. Already, some of them are foreseeing a situation where they could render such a service to the community. Auditing firms are streamlining their services by introducing small business divisions where emerging businesses may obtain the services they need.

For R200 to cover the cost of mentoring and R300 to produce a business plan for very small, labor-only contracts, an auditing firm in Durban is foreseeing expanding this product to the emerging businesses

nationwide. The current experience with 100% success rate indicates that more money can be made while providing to the community badly needed services.

In the Western Cape, the cost of mentoring and the production of credit proposals for emerging building contractors amounted to R2, 500 to R3, 000 per project. For small projects, the cost is not affordable, but for bigger projects, even the contractor themselves are willing to pay the price.

There is thus quantifiable financial value to be placed on the mentoring activity for which both sides may be willing to pay. Contractors were charged (albeit at a subsidised level), and paid, in connection with the

pilot project. The indications from the Pilot Project are that banks are also realising that it is in their interests to pay a fee for the preparation of applications to themselves, just in the same way as they pay a fee to estate agents who introduce them to clients requiring mortgage bonds.

It is important to note that the interventions of the mentor are expected to be reduced substantially for the second contract, and will steadily decline so that before long the contractor will not require any help. The fact that contractors are paying for the service will be a strong incentive for those who are capable to learn how to do it themselves. Those who cannot may either take on in-house skills to do the work, or go out of business.

4. The negative image of banks can be reversed

From the project it emerged that the bankers are not necessarily as bad as portrayed: their position is that they need some level of comfort that can only be given by a professional who can present material in such a way that they can obtain a clear picture of the potential risk of the project.

The major break through for both the banker and the emerging contractor was that they discovered that they could work together.

6.2 The National Home Builders Registration Council (NHBRC)

One of the early initiatives after the Botshabelo Housing Accord, of 27 October 1994, was for the Minister of Housing, Joe Slovo, to set up a steering committee of stakeholders, one of the tasks of which was to establish a forum within the emerging builders could present their case and participate in advising the Department with regard to several initiatives it was proposing. This was essentially the moment at which the BCI was formed, with SABCAP as its secretariat.

One of these initiatives was the establishment of a National Home Builders Registration Council. The first meeting was held in February 1995. The first draft proposal was considered very hostile to the interests of emerging contractors, and SABCAP fought hard to ensure that their position was understood and the regulations adjusted accordingly. Major concessions were made, as a result of which the NHBRC has achieved major successes. The Chairman of NHBRC is Mike Mohohlo, who is also a Director of SABCAP.

6.3 Johannesburg Housing Company

In 1995 the Building Industries Federation of South Africa (BIFSA) requested a grant from the European Union for contractor training. In response the EU insisted that disadvantaged contractors should be the main or only beneficiaries of such a grant. Thereafter SABCAP engaged a consultant to investigate the

alternative arrangements by which the funds could be used effectively, and involved stakeholders such as the Civic Association of Johannesburg. Ultimately this led to the concept that the funds should not be spent, but retained as a security against which funds can be borrowed in perpetuity for the construction or rehabilitation of housing in Johannesburg. Not only would this result in jobs for the emerging contractors, it would also increase the housing stock on a sustainable basis.

This concept is now a reality and the Johannesburg Housing Company has been operating successfully for two years. SABCAP is a shareholder, and its ex-Chairman, Mandla Ndhlovu sits on its Board.

6.4 Other Bodies

SABCAP was also involved in the formation of the National Urban Reconstruction and Housing Agency (NURCHA) and one of its Directors was invited to sit on its Board. This was established by the Department of Housing, co-financed by George Soros's Foundation, in order to provide guarantees in respect of housing projects, thereby assisting the financing of housing projects.

It was a participant in discussions held between the Building Industries Training Scheme (BITS) and the Civil Engineering Industry Training Scheme (CEITS) to develop a unified structure. It participated in the formation of Buildsmart, which was a contractor assistance program established by the Master Builders Association in the Western Cape. It was invited by the US Department of Energy Affairs to examine the potential for solar energy in SA. It made contact with the National Association of Minority Contractors in the US and its equivalent in Britain, and helped ABA and NAGBI to make links with those bodies.

It was also involved in the establishment of Khula, the wholesale financier established by the Department of Trade and Industry in 1996. This was the result of the unbundling of the Small Business Development Corporation (SBDC), a creation of the previous government which had not proved itself very supportive of previously disadvantaged individuals.

7. Conclusions

It is a vindication of USAID that the original needs of the emerging contractors, as stated in the Working Paper of 1992 are now all coming to pass, and SABCAP has had a meaningful role in all these transformations.

7.1 The Policy Environment

It is not necessary to restate here the achievements of the BCI process, but it is important to know that since SABCAP's direct involvement there has been a gradual evolution which has been strikingly to the advantage of the emerging

contractors. The DPW has instituted its Appropriate Procurement Policy (APP) which gives a cost advantage to emerging contractors and provides funds for project management which assist them to get a track record in successful contracts. Secondly, earlier this year it was announced that emerging contractors had joined a new private sector umbrella body which would represent the interests of the whole industry, to be known as the Construction Industries Confederation (CIC). This will combine the interests of all the black contractors (including ABA, NAFBI, NABCAT) with BIFSA and the SA Federation of Civil Engineering Contractors. In other words, the industry has, at last, been united under a single umbrella, which will give it a unified voice. A question is whether its voice will be drowned by those of its other formal industry partners, but the more common view is that, at this stage in the political evolution of the country, this will not happen.

The CIC will focus initially on the formulation of a strategic plan, the merging of the training schemes and boards, the DPW Green Paper, and will also represent the industry in connection with labor matters, housing, transport and water affairs.⁴

7. 2 Mentorship and Training

The Western Cape Pilot Project, and the DPW's APP have given some very important leads in the industry. The most important of these is that it is in the financial interests of contractors to engage mentors. The mentorship program is now well established in many public sector contracts, and the Pilot Project shows that even where there is no direct provision for it, ways and means can be found for funding it. Khula is now a firm advocate of the concept, and has embarked upon a formal program to train and empower mentors.

The lead in this program is being taken by the University of Pretoria which has developed a rigorous method for selecting mentors, in order to evaluate their skills and suitability in the sense of personality, forms of agreement for their engagement, and evaluation criteria for their performance.

The same University is seeking funding for the preparation of teaching material that could be used in either distance learning or in short courses, by either the public or private sector. This would set a standard for the whole industry as well as providing a source of well prepared, low cost, material.

The National Home Builders Registration Council has also embarked upon one of the most ambitious training programs in the country to raise the performance standards of its members. Under this program contractors in all Provinces are invited to short courses to assist them in quality management. Future courses

⁴ Civil Engineering & Building Contractor, June 1998, pp14-16

are planned in the fields of business practices, contract pricing, contract law and consumer services. However, the Council does not have the mandate to finance these courses with its own funds, so must rely on donor or other sources.

7.3 Bridging Finance and Performance Guarantees

The WCPP has given important indications for possible developments in this field. It is too early to claim that a formula has been found, but there are important indicators that we think suggest a route to follow.

No one expects this particular aspect to be an easy one. There are many obstacles:

- ! Banks operate at the branch level, and individual branch managers are very reluctant to support unknown building contractors. In response to this most banks have now adopted a specialist structure for such applications, which is run from a regional office.
- ! The mentorship concept is still in its infancy: ultimately the test is whether suitable mentors can be found in the numbers required.
- ! The economics of employing mentors has to be tested in a free market situation.

The fact that Khula has committed itself to developing the mentorship program is, we think, a significant one, and augurs well for the future. There is every indication that it can be self sustaining given the emerging realisation in financial institutions of the added value that it brings, and the fact that most public sector contracts make specific provision for this service in the form of added margins.

8. Recommendations with Regard to a RFI

In this section we will make our recommendations with regard to the establishment of a RFI. We start by describing the situation as it is, before analysing the needs of the market and describing appropriate interventions.

8.1 Loans Financing

Credit needs for emerging contractors vary according to their classifications and their education and training levels. The different categories are as follows:

- ! Most small businesses can obtain up to R6,000 credit from the existing micro-lenders. However, it is worth noting that micro-borrowers in construction industry are different from other micro-borrowers. The

financing requirements are much larger. Although they may possess marketable skills, have a track record in terms of their workmanship and have generally good experience in the formal construction industry they are intimidated by the size of the loans they require. Their situation is further weakened by the fact that they often have only verbal contracts. Some of them are either victims of the abuse of owner-builders who wait for the last payment to state their dissatisfaction or the formal contractors who exploit them with slave wages.

The above contractors are semi-illiterate and or innumerate, do not know their rights and need to be managed by a trustworthy contractor. Borrowing in a group often does not apply given the large amounts of money required and the difficulty of teaming up with people who happen to have divergent interests.

- ! The next market niche is occupied by contractors who have project with a value between R100, 000 and R500, 000. To qualify for such contracts, tendering must be successful, and proof of management ability and performance guarantees must be provided. Just like the first group mentions, this group needs business advice and training in addition to finance. Although it is a risk to provide finance coupled with advice, just in case of non-performance, the finance mechanism required must be finance cum mentor.
- ! Medium and large contractors with job value of R1.5 million and above are people who have demonstrated some level of professionalism. These were the types of contractors who were targeted by the Western Cape Pilot Project. As seen previously, the study demonstrated that in 80% of the cases the contractors needed just a guide or a mentor to advise them from the beginning until the end of the contract. Some legal protection must waive any liabilities that the mentor may be perceived to have because of non-performance of the contract. The mechanism required could be like above: finance cum mentor, or finance sine mentor, or else mentor sine finance.

8.2 Performance Guarantees

Contractors are required to provide performance guarantees in case they fail to meet the conditions of the contract for any reason. Negotiations with Banks and insurance companies must take place to obtain these guarantees. The criteria applied to grant performance guarantees include the availability of collateral or security, their credit history, a financial statement analysis. The guarantor would also take note of the contractor's performance record, and business qualifications and skills.

The most appropriate source of performance guarantees for emerging contractors would appear to be Khula. However from information gathered from

banks and contractors, Khula is very slow, and the guarantees have been known to arrive when they are no longer needed. This points to the need for a specialist institution which is more responsive to the needs of the construction industry.

WPP demonstrated that only in 2 cases out of ten, were performance guarantees relevant and therefore required. Banks were comfortable with the professional advice given by the mentors. This made a difference more than any guarantee can offer. Mentorship seems to be a very positive guarantee that gives comfort to the financier while helping build up managerial skills and professionalism in the organisation. Again here mentorship would be the most suitable moral guarantee.

If contractors are unable to obtain a performance guarantee most forms of contract allow them to opt for the use of a retention fund. The concept is that, in the event of non-performance, the employer may use the retention money to hire another contractor and thereby mitigate his losses.

It is suggested that like NHBRC, a pooled fund would be more appropriate. The joint Builders and Contractors Council propose retention at a reducing rate from 12,5% to 0% over the course of the project, based on widely recognised interim completion points in the contract. The limit of the retention fund is 5% of the contract value.

8.3 Equity Funding

Equity financing⁵ implies a genuine interest in the company from all points of view. This occurs through capitalisation of emerging contractors without necessarily acquiring the company and joint ventures. The financing mechanisms behind equity funding are profit driven and depend mainly on the parties involved. It strengthens the capital base and may also be linked to infusing needed skills in the organisation.

8.4 Credit Rehabilitation

Black listing is an extremely common problem in South Africa. Many emerging contractors are sole proprietorships, and the owner may have incurred debts in relation to hire purchase and similar household linked borrowing. Although these debts have no relationship to the business, they are an insurmountable obstacle for many firms in obtaining credit. The situation is exacerbated by the fact that there are many cases where the debt in question has been paid, or the black-listing has expired, but most contractors lack the skills to obtain credit rehabilitation. It is suggested that for emerging contractors claiming to be unjustly blacklisted, a thorough investigation be conducted to clear their names.

⁵ That is to say, providing funds as an investor in the business, taking the risk of future losses or profits. This may be contrasted with loan financing, which must be repaid at predetermined rates and over a specified term.

It is assumed that this situation is more of an exception than a rule.

8.5 The Suppliers of Financial and Allied Services

8.5.1 Khula Enterprise Finance Ltd:

Khula Enterprise Finance Ltd is a registered public company with a sole shareholder, the Republic of South Africa. Its products include : Business and Seed Loans to Retail Finance Intermediaries (RFI), Credit guarantees to entrepreneurs without collateral to the tune of 60% of the risk, equity funding and Institutional Support. Its lending capacity is limited to its capital of R500 million.

8.5.2 Ntsika

Ntsika Enterprise Promotion Agency is another government owned agency which provides non-financial services to small, medium and micro-enterprises (SMMEs). These services are: access to information, advice, markets, appropriate technology, and training. As a wholesaler, Ntsika delivers the above-mentioned services through Service Provider.

There are numerous private sector RFIs involved in financing emerging businesses. Those particularly targeting the emerging contractors are as follows:

8.5.3 ArtParc (New):

ArtParc aims to provide bridging finance to emerging contractors The target market is contractors in need of loans between R1, 000 to R24, 000.

8.5.4 Entrepreneurial Development South Africa (EDSA)

EDSA provides credits to contractors in need of credit. Their target market is contractors needing loans between R25, 000 and R100, 000. EDSA finances only 40% of the contract. This means that the value of projects to be financed must be between R100, 000 and R400, 000. If the needs of the clients are bigger than EDSA's products, EDSA can still finance the client using guarantees provided by NURCHA.

8.5.5 Project Control (new, applying to Khula)

Project Control's target market is contractors needing bridging finance between R100, 001 and R1, 000, 000.

These RFIs combined provide loans between R1,000 and R1,000,000 to emerging contractors. They are, however far from covering the needs of the

market. Two out of three of them are new and their market penetration is less than satisfactory. The oldest EDSA, which was established in 1989, has a portfolio of only R3 million to 302 clients in Mpumalanga, Western Cape, and Gauteng. EDSA combines both training and lending. It cannot therefore be self-sustaining in the medium term.

8.6 The SABCAP Proposal

8.6.1 Assumptions

The proposal is based on the assumption that Emerging Contractors cannot obtain performance guarantees, have limited access to finance; have limited access to credit facilities; have limited skills to tender, do not have managerial and administrative experience and have a low level of education and training.

8.6.2 Proposed Services

The services proposed are performance guarantees and mentoring.

8.6.3 Target Market

The target group is those contractors who need performance guarantees in respect of contracts between R2.5 million and R10 million.

8.6.4 Rationale

The WPP proved that financing and mentoring emerging contractors could be a viable business. Bridging finance can be obtained from the formal banking institutions. However those in need of performance guarantees can obtain them from the new proposed RFI against a fee. Mentoring could generate some revenues payable by emerging contractors. Once the contractor is ready to negotiate with the banks, the banks will have also to pay an introduction fee.

8.6.5 Resources

A facility of R30 million would be the required capital to render the services envisaged. The first year would target assistance to ten emerging contractors. By the third year, the number of clients would have increased to 50. At such a point the company would have reached the break-even point.

8.7 Discussion

The WPP has shown that emerging contractors need mentorship and performance guarantees. SABCAP considers that this is the sector of the

market in which real growth is possible, and in which formal sector financial institutions should be involved.

Caution is required in making projections about how much can be achieved, and the problems of establishing a new institution. The experience of Entrepreneurial Development Southern Africa (EDSA) is that there are many problems to be faced. Established in 1989, it has, on average, only been able to service 35 clients per year, in spite of having loanable funds of more than R9 million at the current time. The average loan is about R10 000, and they have loaned about R330 000 total per year. It is not our role to pinpoint the reason for this low level of performance⁶, but the example is quoted to demonstrate the difficulties of establishing financial institutions in this sector.

In spite of our reservations about the limited impact that the SABCAP proposal would be likely to have on the market, we do not consider it any the worse for that. Indeed our conclusion is that the SABCAP proposal may be viable and that it should be encouraged. However, as stated below, we do not consider it necessary for additional SABCAP funds to be used on this project, as it is already almost ready for establishment.

9. Lessons Learned

As stated above, SABCAP was designed in a period of flux. This may have prompted the designers to refrain from proposing a policy or leadership role for it in the black construction industry. It may also have been in response to pressures from the founding partners, ABA and NAFBI. We have not found documentation on that matter.

However, the evolution of the program demonstrated that the original design had fundamental flaws in that it was based on the premise that suitable construction advisers would be available, and that the provision of technical support to contractors was the most appropriate role for SABCAP. History proved this wrong, and it is to the great credit of both USAID and SABCAP's management and Board that they were willing to cut their losses, so to speak, and realign the program to the much more important and influential role in support of policy and institutional development. This decision, which must have been very difficult at the time, has been proved the correct one, and enabled SABCAP to make a really meaningful contribution to the economic and policy environment in which black contractors have to operate.

The second evolution of SABCAP: investigating the financial environment in which medium sized contractors operate, and their relationships with financial institutions, was also successful, and created an impetus for the development of

⁶ The concept was that EDSA would guarantee loans made by a private bank (First National Bank initially). Tensions arose between EDSA and the bank with regard to the criteria being used and obstacles allegedly being placed in the way of lending to contractors.

a mentorship program and other concepts that will bear fruit in the coming years.

SABCAP's effectiveness was limited in its first year by conflict between the Executive Officer and the Board. This was quickly rectified through restructuring the Board in 1995. Its ability to make an impact was also affected by the highly volatile nature of the sector in which many stakeholders were manoeuvring for position, by a rapidly evolving political environment, and something of a false start. However, its contribution has been recognized by all sides of the industry and it can, without any doubt, be said to have made a major, and beneficial difference.

10. Unresolved Issues: What to do with the remaining grant funds?

We were required, as part of this report to provide a critical assessment of the proposed "final phase of activities". The proposal which SABCAP asked us to consider was the potential for establishment of a financial intermediary to provide performance guarantees. However, we took the liberty of expanding our brief in this respect to consider other alternatives.

10.1 Funds Remaining

As of the 24 August 1998, the funds remaining in SABCAP accounts were in excess of R790, 000. The exchange rate gain from a falling Rand has resulted in about US\$138,000 remaining undisbursed. The total amount of the grant not yet spent is thus over R1.5 million.

The board provisionally set up two dates to close down the activities of SABCAP "field activities": August 31, 1998, or end of October 1998, giving the Executive Director and a sub-committee of the Board sufficient time before USAID grant close-out, to make recommendations to the Board on the future of SABCAP.

Sustainability is the keyword in the proposal for the final phase of activities. It is therefore necessary to consider cost-benefit and budgetary constraints.

The question to be asked here is whether SABCAP has achieved its objectives in full? If yes, can the funds remaining help strengthen the results achieved? If not, can the remaining funds, within the remaining life of the grant, be used in order to finalise the last phase of BCI? Or else should the remaining funds be sent back to USAID or used according within SABCAP's existing brief?

10.2 Development of Performance Guarantee Facility (PGF)

We have stated above that an organization that provides performance guarantees and mentoring could be a viable business. The organization would

be sustainable over the long term, and would not require USAID funds. We consider that the proposal that has been developed by SABCAP is sufficiently strong as it stands for it to be started very soon. In other words we believe that the concept is already so well developed that little work needs doing for a pilot project to be commenced. The majority of the can be done with funds from Khula, and is expected to be a sustainable model.

To bring the concept to the stage when it is ready for launching, SABCAP's role would be to analyse the market and fully consult the stakeholders in such a business to ensure viability.

However, this is not to state that there is no need for additional work in this field. The market is very large, and highly segmented. There is vertical market segmentation into, for example, very small, small, medium, large, and national contractors. There is also geographical segmentation: no system will work in South Africa as a whole without local representation. This could mean that single institutions could evolve, with a branch structure such as the banks have, or a concept could be developed that was easily replicable at the local level by local entrepreneurs.

The question that must be asked here is how this concept should be taken further, and what, if any, role SABCAP or USAID could take?

Our view is that it would require only limited funds to commission consultants to analyse the situation more fully, as a service to the stakeholders, of which the most important are Khula and the banks, on one side, and the BCI on the other. The work of these consultants would require careful management and must be legitimised by a process of consultation with and guidance by the stakeholders. These would include the BCI and others, who are already represented under the leadership of KHULA.

10.3 Support for the BCI

Alternatively, we consider that the remaining funds could be used to further develop the proposed new unified BCI. This is, and has been a priority for Government ever since 1994. Never has realisation of this goal been nearer, but critical funds are lacking in order to complete the move so ably and importantly started by SABCAP.

10.4 Contractor Training

A last alternative would be for the funds to be used for contractor training or the development of training materials. During the time of the review, the National Home Builders Registration Council (NHBRC) was running contractor training workshops with financial assistance from SABCAP. An amount of R145,000 was committed by SABCAP for that purpose. The workshops and SABCAP's involvement were endorsed as a success by the emerging contractors with a

request for further assistance. The merit of NHBRC as a focal point for this activity is that it has direct interaction with the largest number of contractors in the country (except the Department of Public Works), and any such funds could be used for the direct and immediate benefit of emerging contractors.

10.5 Links and Potential Synergy with the USAID/SA BLUE Project

The terms of reference required that we should explore the potential synergy between SABCAP and the BLUE project. We were informed that, at this time, the first phase of the BLUE project is completed, and a further phase is being designed. At this time it is not therefore possible to make any specific linkages.

11. Conclusion

We consider that, with the funds available, a major contribution can be made to concluding what is, in effect, the most important of SABCAP's objectives. Supporting the BCI process to its logical conclusion, to the stage where it is a fully established sustainable body, representing the interests of previously disadvantaged contractors, would be an excellent and worthwhile conclusion to the grant. There is no objection to limited sums being made available to refine the RFI process and engage stakeholders to the stage where it is ready for establishment, but we consider that this is a small step. The third priority, assisting the NHBRC with its contractor training would be a useful use of the funds, but would only be recommended if sufficient funds are available when the activities stated above have been fully funded.

Annex 1

Scope of Work

1. Objective

The objective of this program is twofold:

1. To undertake an evaluation of the SABCAP grant, with an emphasis on its achievements to date vis-à-vis the grant objectives
2. To assess the SABCAP proposal for the final phase of the grant.

2. Scope of Work

To achieve the above objectives, the contractor will undertake the following tasks:

1. Review the SABCAP grant documentation with an eye to ascertaining the precise objectives and anticipated outcomes desired by USAID and the grantee for all phases of the grant;
2. Assess the achievements of the grant to date vis-à-vis those stated in the grant document. A discussion of the feasibility of the objectives themselves would also be of relevance;
3. Identify any achievements that surpass those expected as well as any shortfalls. To the greatest extent possible, provide information relative to these achievement or shortfalls;
4. Discuss any unanticipated outcomes, their causes and impacts including the degree of impact (where possible) and the targets of the impacts;
5. Identify any lessons that can be learned from the SABCAP experience, and provide information relative to who the audience for these lessons and the way that they can be utilized;
6. Provide a critical assessment of the proposed “final phase of activities” in view of SABCAP’s achievements to date. The assessment should discuss the possible alternative actions, the feasibility of implementing the proposal, possible constraints and other difficulties that may be encountered.
7. Investigate any linkages and potential areas of synergy between the services being proposed by SABCAP and those available under USAID/South Africa’s Private Enterprise Office (i.e. training by the BLUE Project).

Annex 2

Methodology

1. The starting point for the evaluation was the Grant Agreement and the amendments. These were studied carefully in order to determine the program design and objectives.
2. In addition we were given access to all the files at USAID Pretoria's office and SABCAP's office in Cape Town. This enabled us to understand the sequence of events, the relationship between the USAID project officer and the grantee, and the financial position.
3. We met a wide variety of people. We spent several days with the Executive Director, who was able to answer the very many questions that the files posed, and give us first hand explanations of the dynamics of the program. We also met the Chairman and several Director and an ex-Director, including practising contractors, an academic and a representative of the building supply industry. We met academics and a researcher who have been involved in the development of the sector and who continue to contributed to it. We met representatives of the Department of Public Works. We met SABCAP's attorney, its auditors and book keepers. We also met representatives of a Bank which had been involved with the Western Cape Pilot Project, and Khula.
4. On September 7 a draft copy of the report was submitted for comment by USAID, SABCAP and MACRO International . The comments were discussed at a meeting held on October 1 in the USAID/South Africa office, and have been incorporated in this final draft.

Annex 3

List of persons interviewed

Lindsay Jamieson, Khula Enterprise Finance Ltd
Professor Hauptfleisch, University of Pretoria
Dr P D Rwelamila, CSIR/Centre for Strategic Studies, Dept of Construction
Economics and Management, University of Cape Town
Tjaart van Staden, Promatra
Ishmail Jackson, Clover Construction
Gareth Grove, Clover Construction
Chan Makan, Cape Management Services
V Cupido, First National Bank
Myrtle Petersen, Sunbird Construction
Mr Ashoek Adhikari, Attorney
Mr Brian Figaji, Vice Chancellor, Peninsula Technikon
Bob Hindle, Centre for Strategic Studies, Dept of Construction Economics and
Management, University of Cape Town
Pete Smith, KMMT Brey, (Western Cape) Inc
Seraj Seria, KMMT Brey, (Western Cape) Inc
Mike Ingham, Corobrik (Pty) Ltd
Mickey Governder, KMMT Brey, (KZN) Inc
Cyril Gwala, Sivukile Contractors (Pty) Ltd
Mandla Ndlovu, Fikile Projects (Pty) Ltd
Mangalani Malungani, Taylor Woodrow South Africa (Pty) Ltd
Cannon Noyana, Entrepreneurial Development Southern Africa
Spencer Hodgson, Construction Industry Development Board, Department of
Public Works
Sivi Gounden, Deputy Director General, Department of Public Works